I. Project Context

Country Context

Driven by a natural resource boom, Azerbaijan’s economic growth averaged 16 percent a year during 2002-10. Over this period, substantial oil extraction, high oil prices and efforts to save a significant part of oil-related revenues resulted in large fiscal surpluses, accumulation of sizable foreign assets and low government debt. A decline in oil production brought down the pace of economic growth to almost zero in 2011 and 2.2 percent in 2012. Growth has recovered to an estimated 5.8 percent in 2013. The decline in oil production was stemmed as a result of investments in the sector and growth in construction and services. Over the medium-term, Azerbaijan’s economy will continue to be dominated by the developments in the hydrocarbon sector. Current projections through to 2020 point to a gradual decline in oil production, to be offset in part by expansion in production and export of natural gas. Towards this, the Shah Deniz gas consortium chose the Trans Adriatic Pipeline (TAP) to transport gas to Europe. The pipeline is expected to be operational by 2019 and will carry Caspian gas to Italy via Turkey, Greece and Albania.

Fiscal policy has been expansionary in the past few years with a quadrupling in nominal terms of
consolidated government expenditures between 2006 and 2012, faster than the growth in nominal GDP. Overall expenditures are budgeted to grow from 37.8 percent of GDP in 2013 to nearly 39 percent in 2014, up from an average of 30.5 percent during 2006-2011. Much of this increase is driven by public investment geared to boosting the economy, which almost doubled in nominal terms in just two years, with relatively modest increases in education and health spending. Growth in spending has largely been financed by increasing transfers from the Oil Fund, accounting for 52 percent of expenditures in 2013 up from 43 percent in 2010, with a commensurate reduction in the share of oil revenues assigned to savings. These trends raise concerns regarding longer term fiscal sustainability, the quality of public investment and the efficiency and effectiveness of public spending in terms of improvements in service delivery.

Poverty declined from 46.7 percent in 2002 to 6 percent in 2012, one of the fastest rates of reduction in the world. Azerbaijan also achieved a significant decline in inequality. Extreme poverty, measured by the ECA poverty line of $2.50 per day, fell from 11.5 percent in 2002 to 4.5 percent in 2008. Joblessness has fallen over the last decade from 10 percent in 2002 to 5.2 percent in 2012, in part reflecting a sharp drop in labor force participation but also through the creation of more than a half a million jobs since 2000. The poor have benefited a 13 percent increase in real wages over the same period. Social transfers have also played an important role in reducing poverty. Almost two thirds of households receive some form of social transfer.

Azerbaijan’s longer-term growth, development and further progress in poverty reduction prospects are tied to successful economic diversification. With the decline in oil production, the government realizes that it will have to develop alternative sources of growth and revenues. On December 29, 2012, the President approved “Azerbaijan 2020 Vision of the Future” as the national concept of development. This outlines the government’s diversification strategy and lays out the goal to reach high income status. While the vision statement promotes specific sectors in an effort towards regional development and product export diversification, the primary focus is on the development of assets: physical capital, human capital and institutions.

One element of the diversification strategy that has gained traction is the development of the Information and Communication sector. E-Government solutions have become an important feature of efforts to strengthen the public sector, improve the delivery of public services and reduce red tape and corruption. The President proclaimed 2013 as the Information and Communication Technology (ICT) Year for Azerbaijan, obligating state authorities to implement electronic document management from July 1, 2013. Other Presidential decrees have mandated disclosure of state and local bodies’ acts through electronic information systems and approved a State Program for ICT development and e-government activities in state bodies, including rules for delivery of electronic services by ministries and a list of electronic services to be provided. In addition, ASAN service centers which serve as a one stop shop for public service delivery was launched in 2013 and these service centers offer a wide array of public services. ASAN centers utilize ICT extensively which makes service delivery more time efficient.

**Sectoral and institutional Context**

From 2000 Azerbaijan has gradually modernized its judiciary. The objectives of the first phase of reforms were to modernize the legal framework for the justice system; strengthen judges’ professionalism and ensure a transparent and merit-based recruitment; improve courts’ physical and technological infrastructure; and improve access to justice. Azerbaijan adopted modern criminal,
criminal procedure, civil and civil procedure codes conforming to international practices. Legislative and procedural reforms are fulfilling the obligations arising from Azerbaijan’s membership of Council of Europe (COE) in January 2001. In 2000 the first open competitive examinations for judges’ selection were held in Baku, monitored by the media and international observers. An objective, computerized and transparent testing system was introduced for the selection of a new generation of judges. Today more than 70 percent of judges in first-instance courts have been recruited through the new JMP-supported competitive procedures open to international observers and the media, with results being displayed in real time. Judges’ salaries have been increased 30-fold since 2000 in order to increase quality of applicants and increase the status of the profession. The court network has been expanded with twenty new regional courts, and the establishment of regional Grave Crimes Courts and Administrative Courts. An independent body, the Judicial Legal Council (JLC), comprising judges and representatives of the Presidential Office, Parliament, the prosecution service and the Bar, has been empowered to manage the judiciary, handle judicial discipline and strengthen judicial independence. A ‘hot line’ to the JLC to report judicial corruption is now functional.

World Bank assistance under the Judicial Modernization Project (JMP) supported the reform agenda laid out in the 2006 Presidential Decree “On Development of Institutions of Justice”. The Decree mandated the creation of new courts and upgrading court facilities, training and evaluating judges, applying new technologies, increasing system efficiency, improving legal aid and boosting citizens’ trust in the judiciary. JMP has pioneered the concept of user-oriented ‘smart courts’ for more accessible and transparent judicial service delivery. Built for function, the smart courts include design features such as separate access for the public, defendants, judicial staff and judges that are critical for preserving due process and the dignity of those involved. Courts are accessible to the physically handicapped and have Braille signage and floor bands for the visually handicapped.

ICT solutions have been an important feature of the JMP. Automated case and document management have been piloted and the experience from the pilots will guide roll-out of user-friendly systems across the country. They strengthen the ‘housekeeping’ aspect of judicial functioning through random case allocation to reduce corruption, automated case management, personnel management, financial management and archiving. Advances include electronic public information kiosks; automatic audio-video recording of court proceedings ensuring easy archiving, retrieval and transmission; and the creation of a court decision database and an improved company registry.

Policy makers’ have given considerable attention to the use of ICT applications to address the “demand side” of judicial services. E-services include as e-filing of plaints, electronic notice of service and e-submission of documents. A pilot E-Notary system enables users to access notarial services through the internet. Services currently being piloted include SMS messaging to notify parties to cases and trials. A unified web-portal for all courts (http://courts.gov.az) contains a growing database of court decisions and information about courts. In future, all final court decisions will be posted on the portal once digitized.

Progress in improving access to justice has trailed progress in modernization of the judiciary. There is limited scope to support the economically disadvantaged through further legislative reforms and improved service delivery. Azerbaijan is yet to enact a law on legal aid. Legal aid services are concentrated in Baku and other major cities. Furthermore, there is no provision for legal aid to
eligible persons in non-criminal cases. As a result, vulnerable litigants are not able to secure legal advice or representation in non-criminal cases

Issues related to gender and the youth are receiving increasing attention but much remains to be done. There are relatively few women in the judiciary, prosecution and the legal profession: there are no women Court Presidents in any of the 111 court locations, women constitute about 10 percent of judges and lawyers and only 5 percent of prosecutors. There are concerns about the manner in which gender issues, such as domestic violence, are addressed. The justice system is not geared to meeting to special needs of young offenders. There is no juvenile justice system, no national strategy for prevention of offenses by juveniles and no program for reintegrating juvenile offenders. UNICEF studies show that long sentences are still common and a cause for concern.

Attention has recently turned to the role of the judiciary in reducing arbitrary and opaque functioning of the regulatory entities as a means of reducing regulatory burden on the private sector, reducing corruption and compliance costs for businesses and small-businesses in particular. On August 28, 2013 the President signed an Inspections Law which seeks to curb the abuse of inspections procedures by giving the MOJ the lead role overseeing the inspection regime. The law mandates the implementation of inspection check-lists to reduce harassment, the application of risk criteria for inspections, and maximum inspection frequencies for different risk ratings. The law strengthens the role of the Business Inspections E-Registry, obliges all inspectorates to create a hot-line telephone service for inspection-related questions and prohibits Inspectorates from adopting additional internal rules and regulations on inspections unless ratified by the Cabinet of Ministers. The annual compliance cost savings (CCS) as a result of this new law are estimated by the ‘Doing Business’ team at $10 million. Next steps include the adoption of implementing regulations and technical guidelines and the initiation of a large-scale public communications and outreach campaign by the Ministries of Justice and Economy.

II. Proposed Development Objectives

The objective of the project is to improve access to, and the transparency and efficiency of, selected justice services.

III. Project Description

Component Name
A. Judicial Service Delivery Improvements
Comments (optional)

Component Name
B. Strengthening Sector Efficiency, Institutional Capacity and M&E
Comments (optional)

Component Name
C. Expansion and Modernization of Justice Physical Infrastructure
Comments (optional)
D. Project Management and Coordination

Comments (optional)

Component Name
Contingency
Comments (optional)

IV. Financing (in USD Million)

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Project Cost:</td>
<td>445.32</td>
</tr>
<tr>
<td>Total Bank Financing:</td>
<td>100.00</td>
</tr>
<tr>
<td>Financing Gap:</td>
<td>0.00</td>
</tr>
</tbody>
</table>

For Loans/Credits/Others

<table>
<thead>
<tr>
<th>Borrower</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>International Bank for Reconstruction and Development</td>
<td>345.32</td>
</tr>
<tr>
<td>Total</td>
<td>445.32</td>
</tr>
</tbody>
</table>

V. Implementation

The Ministry of Justice (MOJ) of Azerbaijan will be the project implementing agency. MOJ has been the implementing agency for the ongoing Judicial Modernization Project (JMP) since 2006 and has developed extensive experience and skills in managing and implementing a World Bank-financed project. The Minister of Justice will provide strategic oversight and guidance on implementation. Operationally, the Deputy Minister of Justice will be designated as the Project Director and will be in charge of project implementation, management and coordination. Relevant departments and units of the Ministry of Justice dealing with budgeting, procurement, financial management, substantive reforms for which the Ministry is responsible will assist in implementation. These arrangements are the same as those for the Judicial Modernization Project.

VI. Safeguard Policies (including public consultation)

<table>
<thead>
<tr>
<th>Safeguard Policies Triggered by the Project</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Assessment OP/BP 4.01</td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>Natural Habitats OP/BP 4.04</td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>Forests OP/BP 4.36</td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>Pest Management OP 4.09</td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>Physical Cultural Resources OP/BP 4.11</td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>Indigenous Peoples OP/BP 4.10</td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>Involuntary Resettlement OP/BP 4.12</td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>Safety of Dams OP/BP 4.37</td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>Projects on International Waterways OP/BP 7.50</td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>Projects in Disputed Areas OP/BP 7.60</td>
<td>✗</td>
<td></td>
</tr>
</tbody>
</table>

Comments (optional)
VII. Contact point

World Bank
Contact: Amitabha Mukherjee
Title: Lead Public Sector Specialist
Tel: 458-5061
Email: amukherjee@worldbank.org

Borrower/Client/Recipient
Name: Republic of Azerbaijan
Contact:
Title:
Tel:
Email:

Implementing Agencies
Name: Ministry of Justice
Contact: Ramin Gurbanov
Title: Judge Baku City Yasamal Court & Project Coordinator JSSIP
Tel: 994125100444
Email: ramingurbanov@yahoo.com

VIII. For more information contact:
The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: http://www.worldbank.org/infoshop